

Oak Ridge Operations Office
1995-96 Work Force Restructuring Plan Addendum

A. Introduction and Background

The current Oak Ridge Operations Office (ORO) Work Force Restructuring Plan (WFR Plan), developed and approved to implement contractor work force changes announced in May 1995, was developed to accomplish necessary employment reductions in a phased manner over a 12-18 month period through September 1996. It was initially estimated that up to approximately 900 ORO contractor and subcontractor jobs would be eliminated. Those reductions were anticipated due to changing missions and cost-saving efforts in various ORO programs, as well as the anticipated need to plan in a business-like manner for the likelihood of reduced program budgets.

The WFR Plan described several programs designed to assist impacted workers. Those programs included Voluntary Separation Programs, Outplacement Assistance, and Displaced Workers Medical Benefits, all of which have been effectively used during the initial implementation phases of the Plan. Key stakeholders were kept informed of the need for these further actions through regular meetings of the Adjustment Assistance Coordinating Council. It includes ORO, contractors and worker representatives, and is an ongoing forum for communication about work force restructuring issues.

Because ORO is a multi-program office, employment reductions under the current Plan have occurred among both Management and Operating (M&O) and support services prime contractors, as well as among several sub-contractors. Through May 31, 1996, approximately 430 contractor and subcontractor employees were separated by both voluntary and involuntary means (excluding "normal" attrition unrelated to work force restructuring and actions resulting from normal completion of contracts and subcontracts).

B. Retirement Incentive Program at Lockheed Martin Energy Systems, Inc.(LMES)

The major objective at this time is to determine if there are other programs that would enable impacted workers to separate voluntarily, thereby reducing the number who must be terminated involuntarily. This 1995-96 Plan Addendum describes a Retirement Incentive Program which has been approved for implementation by LMES, and which will assist in accomplishing this objective. It is expected that Voluntary Reduction in Force Programs included in the initial WFR Plan will also continue to be

used by contractors as appropriate to continue to minimize involuntary reductions in force.

The majority of WFR-related separations have been voluntary; however, it became evident that it was increasingly difficult for contractors to continue this pattern without providing additional options. In 1994, the ORO WFR Plan included a Special Retirement Incentive Program, which successfully helped ORO avoid involuntary layoffs that year. However, early retirement programs are costly. Consequently, it was determined in developing the 1995-96 WFR Plan not to use that type of program initially. The basis for now adding a retirement incentive as an addendum to the current Plan is discussed below.

A significant organizational change occurred on January 1, 1996, in one of ORO's principal contractors. On that date, the Lockheed Martin Energy Research Corporation (LMER) was established as a separate and distinct corporate entity from LMES. While both continue under the Lockheed Martin Corporate umbrella, LMER is now responsible for management and operation of the Oak Ridge National Laboratory (ORNL), under a Management and Operating (M&O) contract with DOE/ORO. LMES continues to manage and operate the Y-12 Plant and K-25 Site under a separate M&O contract.

Following their organizational separation, LMES and LMER have both begun reassessing and reengineering their organizations as a result of FY 1997 budgets. LMES evaluated several downsizing alternatives, including four different Voluntary Reduction-in-Force (VRIF) programs, an Involuntary Reduction-in-Force (IRIF), and three retirement incentive options. Upon further consideration, LMES determined that another VRIF program would not be effective at this time in attracting large numbers of volunteers, and that those employees most likely to volunteer to participate in a VRIF would be likely to have skills needed for continuing mission requirements. Previous experience suggests that a retirement incentive program appealed to a broader base of employees.

Moreover, since further budget reductions are expected, one of the key drivers in implementing the additional remaining phases of the ORO WFR Plan, must be affordability. A significant issue with any employee benefit provided in connection with restructuring is the ability to fund the benefit without unduly draining program dollars, and thereby potentially adversely affecting additional employees. Because the LMES Pension Plan has continued to experience excellent investment returns in recent years, it has been determined actuarially that the additional enhanced benefits that will be paid out over the lives of the retirees (\$19.8 million), can be afforded with no adverse effect on the financial stability of the pension plan. In fact, the incentive program represents an increase in

liability of less than one percent. Even with this retirement incentive program, no contributions to the Pension Plan will be required at least through FY 1997.

Based on the estimated number of acceptances of the retirement incentive (discussed below), the total cost of the Transition Assistance Payments will be approximately \$2.8 million, all of which must be paid from program budgets. This combination of paying for the program largely from surplus pension funds, and to a much smaller extent from program budgets, optimizes the objectives of further enabling voluntary separations, while minimizing costs that could impact additional employees.

The result of the evaluation led to the recommendation of a retirement incentive considered the most appropriate to assist in accomplishing the necessary personnel reductions, considering both budget forecasts, and the objective of minimizing adverse impacts on employees and the community.

The retirement incentive program included the following key features:

- Employees currently eligible for an unreduced pension benefit under the LMES Retirement Plan will have 5 years added to their company service;
- Employees currently eligible for a reduced pension benefit will have up to 2.5 years of age and 2.5 years of service added in equal amounts;
- Lump sum transition assistance payment of \$5,000.

Employees must submit an application for this program during a period to be established by LMES and communicated to eligible applicants, but which will give employees at least 45 days to consider the General Release and Waiver and supporting information, and 7 days after execution to rescind the Waiver. Separation dates will be approved by the company, and may be extended to as late as August 31, 1997, in accordance with programmatic needs.

Employees eligible to participate in the program will receive individual communications about the program, and additional information will be made available through a variety of established company communications vehicles. Benefit plan counselors will also provide retirement counseling to employees considering this program.

Based on the rates of acceptances of eligible employees in the Retirement Incentive Program that was offered in 1994, LMES has projected that approximately 555 employees would voluntarily accept this retirement incentive. At the same time, LMES projects the need to reduce 500-600

employees as a result of FY 1997 budget reductions, and as a starting point toward reengineering its organization.

Using the Common Occupational Classification System (COCS), an updated work force analysis was performed to assess the potential impact of the Voluntary Retirement Incentive Program upon the needed personnel reductions. ORO thoroughly reviewed the results of that analysis, and determined that there was a strong correlation between the job categories where reductions are planned and the job titles of individuals who would most likely make application for the Retirement Incentive Program. It was concluded that there appeared to be a high probability that the desired results could be achieved in both total numbers and in the individual job categories which were identified for reductions.

During the Retirement Incentive Program open window, 376 employees applied for it. Of those, 152 retired and left the payroll by September 30, 1996; the remainder will retire between that date and the end of August 1997.

C. Involuntary Reduction-in-Force Program at LMES

Based on an assessment in July 1996, LMES estimated the need for up to 300 involuntary separations. This additional action was needed in order to meet its program missions within available funding. On August 16, 1996, the Secretary of Energy approved involuntary separations for up to 100 Defense Program workers and up to 200 reductions in Environmental Management Programs to ensure that high-priority work could be accomplished within the expected FY 1997 budget. By mid-September 300 RIF notices were issued; most of who will leave the payroll by the end of October 1996. No retirement eligible employees were affected by the involuntary separation programs.

Involuntarily separated workers will receive benefits consistent with the terms and conditions of the current and existing 1995-1996 Oak Ridge Work Force Restructuring Plan. These benefits include severance payments, as well as displaced worker medical, education, relocation, outplacement assistance and preference in hiring among DOE contractors in Oak Ridge and other sites across the country.

D. Voluntary Reduction-in-Force Program at LMER

The ORNL needed to reduce its work force by approximately 120 positions as a result of budget reductions. ORNL implemented a VRIF with enhanced severance pay (150 percent) to attract as many volunteers as possible in all COCS "job families," except in the hourly occupations where reductions are not needed. This VRIF allowed management to be selective in whom they

approved to participate in order to address skill mix issues and allow for the retention of critical skills. However, it was projected that the necessary employment reduction could only be partially accomplished with the VRIF and the remaining reductions occurred involuntarily.

Several VRIF options were reviewed, and the 150 percent enhancement of normal severance pay was determined to be the most desirable after due consideration to affordability and employee attractiveness issues. A voluntary program with a pension plan enhancement similar to the LMES plan was inappropriate because of the relatively small number of reductions necessary and the need for management to selectively determine which skills actually leave the payroll.

During the VRIF open window, 93 employees applied for a VRIF. Of those 49 were approved, 36 were not approved, and 8 were withdrawn.

E. Involuntary Reduction-in-Force Program at LMER

As stated in the previous section, LMER expected to only partially accomplish its needed reductions through volunteers for the Enhanced Voluntary Separation Program; therefore, on July 19, 1996, the Office of Worker and Community Transition approved LMER for up to 80 involuntary reduction-in-force (IRIF) notices. Notices were given to 78 employees on July 31, 1996, consistent with its company policy. By September 30, 1996, 17 workers left the payroll via the IRIF. The workers received benefits consistent with the terms and conditions of the current 1995-1996 Oak Ridge Work Force Restructuring Plan.

F. Conclusion

The LMES-proposed Retirement Incentive Program and the Involuntary Separation Program represent the best options for achieving additional voluntary and involuntary separations at reasonable cost in the Defense and Environmental Management Programs. The LMER VRIF, followed by an involuntary reduction, represents the best option for achieving the cost-effective reductions at the ORNL.

Therefore, these programs are hereby incorporated into the Oak Ridge Operations Office 1995-96 Work Force Restructuring Plan via this addendum.

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